

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, *Executive Director*

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TO: Norwood Retirement Board

FROM: Joseph E. Connarton, Executive Director

RE: Approval of Funding Schedule

DATE: December 2, 2014

This Commission is hereby furnishing you with approval of the revised funding schedule you recently adopted (copy enclosed). The schedule assumes payments are made on August 1 of each fiscal year. The schedule is effective in FY15 (since the amount under the prior schedule was maintained in FY15) and is acceptable under Chapter 32.

We indicated in our memorandum dated November 7, 2013, that we had concerns about the salary increase assumption. This valuation uses a salary increase assumption of 3.0% (virtually the same as the prior valuation). We expect that over the long term this assumption will need to be increased (and/or the investment return assumption decreased) which will increase plan liabilities. Page 3 of the valuation report notes there was a loss of \$1.1 million due to salary increases in this valuation. In other words, the pay for continuing members increased by more than 3% per year over the 2 year period.

In that same prior memorandum, we also recommended that the Board consider reducing the investment return assumption from 8.25% to 8.0% at the time of the next valuation. The current valuation continues to use an 8.25% assumption. Only 8 systems are currently using an investment return assumption above 8.0% (all 8 use 8.25%). As of January 1, 2013, PERAC reduced its "standard" investment return assumption for local system valuations to 7.75%. There are now 71 systems using an assumption under 8.0% and we expect there will be several more by the time the 2014 valuations are completed. We reiterate our recommendation to reduce this assumption in the next actuarial valuation.

On a positive note, the Board reduced the amortization period of the unfunded liability from FY35 to FY30. Although we would have preferred that the valuation use a higher salary increase assumption and a lower investment return assumption, the FY30 date is aggressive in light of the 2008 market loss (which has now been fully recognized). If the valuation were run using PERAC's standard assumptions, the actuarial liability and normal cost would be greater. However, by extending the amortization schedule beyond FY30, a schedule that is comparable to the schedule adopted by the Board for the next several years could be determined.

If you have any questions, please contact PERAC's Actuary, Jim Lamenzo, at (617) 666-4446, extension 921.

Enc.



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Appropriation Forecast

Fiscal Year		Employee	Employer	Amortization	Employer	Employer	
Ending	Payroll*	Contribution	Normal Cost with Interest	Payments with Interest	Total Cost with Interest	Total Cost % of Payroll	Funded Ratio %**
2015	\$29,112,640	\$2,393,749	\$1,051,369	\$2,850,721	\$3,902,090	13.4	77.0
2016	\$30,277,146	\$2,520,844	\$1,060,487	\$3,153,770	\$4,214,257	13.9	78.0
2017	\$31,488,231	\$2,654,278	\$1,068,651	\$3,482,746	\$4,551,397	14.5	79.1
2018	\$32,747,761	\$2,794,352	\$1,075,771	\$3,839,738	\$4,915,509	15.0	80.3
2019	\$34,057,671	\$2,941,386	\$1,081,752	\$4,040,328	\$5,122,080	15.0	81.4
2020	\$35,419,978	\$3,095,711	\$1,086,490	\$4,217,614	\$5,304,104	15.0	82.6
2021	\$36,836,777	\$3,257,676	\$1,089,876	\$4,302,241	\$5,392,117	14.6	83.9
2022	\$38,310,248	\$3,427,645	\$1,091,794	\$4,495,842	\$5,587,636	14.6	85.1
2023	\$39,842,658	\$3,605,999	\$1,092,122	\$4,698,155	\$5,790,277	14.5	86.4
2024	\$41,436,364	\$3,793,138	\$1,090,729	\$4,909,572	\$6,000,301	14.5	87.8
2025	\$43,093,819	\$3,989,478	\$1,087,478	\$5,130,503	\$6,217,981	14.4	89.3
2026	\$44,817,572	\$4,195,456	\$1,082,221	\$5,361,375	\$6,443,596	14.4	90.9
2027	\$46,610,275	\$4,411,529	\$1,074,804	\$5,602,637	\$6,677,441	14.3	92.6
2028	\$48,474,686	\$4,638,175	\$1,065,062	\$5,854,756	\$6,919,818	14.3	94.3
2029	\$50,413,673	\$4,875,895	\$1,052,821	\$5,843,315	\$6,896,136	13.7	96.2
2030	\$52,430,220	\$5,125,211	\$1,037,896	\$6,106,264	\$7,144,160	13.6	98.0
2031	\$54,527,429	\$5,386,671	\$1,020,093	\$0	\$1,020,093	1.9	100.0
2032	\$56,708,526	\$5,660,847	\$999,205	\$0	\$999,205	1.8	100.0
2033	\$58,976,867	\$5,948,339	\$975,014	\$0	\$975,014	1.7	100.0
2034	\$61,335,942	\$6,249,773	\$947,289	\$0	\$947,289	1.5	100.0
2035	\$63,789,379	\$6,565,804	\$915,786	\$0	\$915,786	1.4	100.0
2036	\$66,340,954	\$6,897,118	\$880,247	\$0	\$880,247	1.3	100.0
2037	\$68,994,593	\$7,244,432	\$840,400	\$0	\$840,400	1.2	100.0
2038	\$71,754,376	\$7,534,210	\$874,016	\$0	\$874,016	1.2	100.0
2039	\$74,624,551	\$7,835,578	\$908,976	\$0	\$908,976	1.2	100.0
2040	\$77,609,533	\$8,149,001	\$945,335	\$0	\$945,335	1.2	100.0
2041	\$80,713,915	\$8,474,961	\$983,149	\$0	\$983,149	1.2	100.0
2042	\$83,942,471	\$8,813,959	\$1,022,475	\$0	\$1,022,475	1.2	100.0
2043	\$87,300,170	\$9,166,518	\$1,063,374	\$0	\$1,063,374	1.2	100.0
2044	\$90,792,177	\$9,533,179	\$1,105,908	\$0	\$1,105,908	1.2	100.0
2045	\$94,423,864	\$9,914,506	\$1,150,145	\$0	\$1,150,145	1.2	100.0
2046	\$98,200,819	\$10,311,086	\$1,196,151	\$0	\$1,196,151	1.2	100.0

* Calendar basis

** Beginning of Fiscal Year